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PAGE 01 TEHRAN 03062 151242Z

53

ACTION NEA-15

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FM AMEMBASSY TEHRAN

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C O N F I D E N T I A L TEHRAN 3062

DEPT PASS DOD AND EX-IM

SUBJ: FMS LEGISLATION AND IRAN-OXY NEGOTIATIONS

REF: STATE 050081

1. CENTRAL BANK GOVERNOR MEHDI SAMII ASKED ME TO CALL URGENTLY THIS MORNING TO DISCUSS FMS LEGISLATION AND VERY SERIOUS FINANCIAL SITUATION WHICH GOI WILL FACE IF FMS LEGISLATION DOES NOT PASS AND IF DEAL WITH OCCIDENTAL IS NOT REALIZED. HE SAID HE WAS SEEING SHAH LATER THIS MORNING AND WISHED FIRST TO KNOW (A) WHAT PROSPECTS FOR PASSAGE OF FMS LEGISLATION ARE AND (B) WHAT USG WOULD DO TO HELP IRAN MEET SITUATION IF FMS LEGISLATION FAILED.

2. I REPLIED WE FULLY UNDERSTOOD SERIOUS PROBLEM THAT CONGRESSIONAL DEVELOPMENTS WITH RESPECT TO FMS LEGISLATION HAD CREATED FOR GOI. HOWEVER, UNTIL SENATE AND HOUSE CONFEREES HAVE BEGUN THEIR TALKS AND WE CAN SEE MORE CLEARLY WHAT MAY COME FROM CONFERENCE, IT IS NOT POSSIBLE TO PREDICT WHAT WE WILL BE ABLE TO DO. WHEN SAMII PURSUED THIS AND PRESSED FOR EXAMPLES OF WHAT WE MIGHT DO, I SAID, SPEAKING ENTIRELY PERSONALLY AND CONFIDENTIALLY, IT MIGHT BE POSSIBLE TO ADD ON TO SOME OTHER BILL A PROVISION WITH RESPECT TO FMS CREDIT FOR IRAN. HOWEVER, WHILE THIS THEORETICALLY POSSIBLE, WHETHER IT WAS PRACTICAL IN TERMS

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PAGE 02 TENRAM 03062 151242Z
OF CONGRESSIONAL POSITION WAS ANOTHER MATTER.

3. DISCUSSION NEXT TURNED TO REMARK SAMII ATTRIBUTED TO EX-IM BANK CHAIRMAN KEARNS LAST MARCH (REFTEL 2 TO EFFECT THAT IF FMS LEGISLATION FAILED TO PASS, EX-IM WOULD EXAMINE OTHER POSSIBILITIES. ON THIS I COMMENTED THAT I WAS CERTAIN THAT IF FMS LEGISLATION FAILED, EVERY AVAILABLE ALTERNATIVE, INCLUDING EX-IM FINANCING, WOULD BE MOST CAREFULLY AND SYMPATHETICALLY CONSIDERED BY USG.

4. SAMII NEXT TURNED TO GOI-Occidental NEGOTIATIONS WHICH UNDERWAY IN PARIS. PRINCIPAL PROBLEM NOW TO BE SOLVED IS FACT THAT OXY'S UNDERTAKING IS PRESENTLY PHRASED AS PREPARED TO "LIFT UP TO 200,000 BBLs/PD." THIS CONSTRUCTION, COUPLED WITH (A) RECOGNITION THAT CURRENT TIGHT SITUATION REGARDING TANKERAGE MIGHT PREVENT OXY FROM LIFTING MUCH IRANIAN OIL AND (B) GOI FINANCIAL BIND, MADE GOI WARY OF SIGNING COMMITMENTS TO LOCKHEED AND MCDONNELL-DOUGLAS BASED ON UNCERTAIN CASH FLOW RESULTING FROM OXY DEAL. IRAN HAD PROPOSED MINIMUM-MAXIMUM RANGE (CERTAIN PERCENTAGE OVER OR UNDER) BASED ON ABOUT 200,000 BARRELS A DAY TO OXY BUT THIS PROPOSAL HAD NOT PROSPERED.

5. GOI HAS HEARD THAT OCCIDENTAL HAS CONTRACTED FOR 80,000 BBLs/PD FROM VENEZUELA FOR DELIVERY TO EUROPE. THIS MAY REDUCE OXY'S NEEDS FROM IRAN TO ONLY 120,000 BBLs/PD. THIS NEGOTIATION IS OF SUCH CRITICAL IMPORTANCE TO GOI THAT SAMII IS GOING TO PROPOSE TO SHAH THAT HE (SAMII) JOIN REZA FALLAH (NIOC) IN PARIS SO THAT FINANCIAL RETURNS AND GUARANTEES ON LIFTINGS BE AS IRONCLAD AS POSSIBLE. SAMII COMMENTED THAT IT WOULD BE DISASTER TO HAVE ALL OF HIS FINANCIAL WALLS (FMS CREDIT AND OXY OFFTAKE) FALLING DOWN WHEN NEED FOR EARLY CONTRACTS FOR AIRCRAFT IS IMMEDIATE. (LOCKHEED & MCDONNELL-DOUGLAS OFFERS BOTH EXPIRE JULY 31). HE ADDED THAT GIVEN DEVELOPMENTS IN THIS AREA, URGENCY FOR ACQUIRING C-130S AND F-4S WAS REDOUBLED AND DELAYS SURROUNDING FMS AND UNCERTAINTIES OF OXY'S UNDERTAKINGS WERE CAUSING DEEPEST CONCERN TO SHAH AND GOI.

6. SAMII CONCLUDED BY ASKING US FOR CONSIDERED READING ON FMS ASAP AND NOT LATER THAN NEXT WEEK IN VIEW OF JULY 31 DEADLINE OF LOCKHEED AND MCDONNELL-DOUGLAS.

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PAGE 03 TEHRAN 03062 151242Z

7. COMMENT : CANNOT EMPHAISIZE TOO STRONGLY DEGREE OF ANXIETY IN GOI RESULTING FROM FMS STALEMATE AND CONJUNCTURE OF OIL MARKETING PROBLEMS WHICH CLOUD FUTURE OF OXY SALE. I NEED NOT ADD THAT IF FMS FAILS, FUTURE DEVELOPMENT OF US - IRAN RELATIONS IS GOING TO DEPEND LARGELY ON WAY IN WHICH WE COOPERATE TO FIND A SOLUTION TO THIS PROBLEM. IT IS ACCORDINGLY EXTREMELY URGENT THAT WE GIVE THIS PROBLEM MOST URGENT ATTENTION AND COME UP ASAP WITH SOME PRACTICAL SUGGESTIONS. GP -3
MACARTHUR

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